

SENATE FISCAL AGENCY MEMORANDUM

DATE: January 14, 2004

TO: Members of the Senate

FROM: Jay Wortley, Senior Economist
Kathryn Summers-Coty, Fiscal Analyst

RE: Consensus Revenue Estimates for FY 2003-04 and FY 2004-05

The Senate Fiscal Agency, House Fiscal Agency, and the Treasury Department held a Consensus Revenue Estimating Conference, January 14, 2004, and unanimously agreed to revised revenue estimates for FY 2003-04 and initial estimates for FY 2004-05. The agreed to estimates for General Fund/General Purpose (GF/GP) revenue and School Aid Fund (SAF) revenue are summarized below and in Tables 1 and 2.

Table 1

FY 2003-04 REVENUE ESTIMATE COMPARISON & CONSENSUS AGREEMENT General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) January 14, 2004, Consensus Revenue Estimating Conference (dollars in millions)								
FY 2003-04 REVISED REVENUE ESTIMATES								
	FY 2002-03 Final	Previous FY 2003-04 Consensus Estimate ¹⁾ 10/14/03	Treasury Department	House Fiscal Agency	Senate Fiscal Agency	FY 2003-04 Revised Cons. Estimate 1/14/04	\$ Change from Oct. 2003 Cons.	% Change from FY 2002-03
Gen'l Fund/Gen'l Purpose:								
Baseline	\$7,943.6	\$8,045.5	\$8,074.5	\$8,023.0	\$8,027.4	\$8,045.5	\$0.0	1.3%
Tax Adjustments	14.1	(188.0)	(200.7)	(194.5)	(189.6)	(188.0)	0.0	---
Net GF/GP Revenue	\$7,957.7	\$7,857.5	\$7,873.8	\$7,828.5	\$7,837.8	\$7,857.5	\$0.0	-1.3%
School Aid Fund:								
Baseline	\$10,255.6	\$10,495.4	\$10,509.7	\$10,547.1	\$10,556.5	\$10,495.4	\$0.0	2.3%
Tax Adjustments	459.2	89.0	77.5	84.5	78.5	89.0	0.0	---
Net SAF Revenue	\$10,714.7	\$10,584.3	\$10,587.2	\$10,631.6	\$10,635.0	\$10,584.3	\$0.0	-1.2%
TOTAL GF/GP & SAF:								
Baseline	\$18,199.2	\$18,540.9	\$18,584.2	\$18,570.1	\$18,583.9	\$18,540.9	\$0.0	1.9%
Tax Adjustments	473.3	(99.0)	(123.2)	(110.0)	(111.1)	(99.0)	0.0	---
Net GF/GP & SAF Rev	\$18,672.4	\$18,441.9	\$18,461.0	\$18,460.1	\$18,472.8	\$18,441.9	\$0.0	-1.2%
1) October 2003 consensus estimates have been adjusted to the new base so they are comparable to the new revised estimates.								

General Fund/General Purpose

The new consensus estimate for FY 2003-04 GF/GP revenue is \$7,858 million, which is down \$100 million, or 1.3%, from FY 2002-03. This revised GF/GP revenue estimate is unchanged from the October 2003 consensus estimate. On a baseline basis, which excludes the impact of the enacted tax reductions, GF/GP revenues will be up 1.3% in FY 2003-04.

In FY 2004-05, GF/GP revenue is estimated at \$7,823 million, which is down \$35 million, or 0.4%, from the revised estimate for FY 2003-04. This is the initial estimate for FY 2004-05. On a baseline basis, GF/GP revenue will be up an estimated 4.0% in FY 2004-05.

Table 2

FY 2004-05 INITIAL REVENUE ESTIMATE COMPARISON & CONSENSUS ESTIMATE General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) January 14, 2004, Consensus Revenue Estimating Conference (dollars in millions)						
	FY 2003-04 Revised Consensus Estimate 1/14/04	FY 2004-05 INITIAL REVENUE ESTIMATES			FY 2004-05 Initial Consensus Estimate 1/14/04	% Change from FY 2003-04 Cons. 1/14/04
		Treasury Department	House Fiscal Agency	Senate Fiscal Agency		
General Fund/General Purpose:						
Baseline	\$8,045.5	\$8,364.3	\$8,390.9	\$8,340.5	\$8,369.3	4.0%
Tax Adjustments	(188.0)	(544.3)	(533.1)	(547.3)	(546.6)	---
Net GF/GP Revenue	\$7,857.5	\$7,820.0	\$7,857.8	\$7,793.2	\$7,822.8	-0.4%
School Aid Fund:						
Baseline	\$10,495.4	\$10,886.7	\$10,914.2	\$10,952.9	\$10,917.9	4.0%
Tax Adjustments	89.0	79.1	94.3	75.5	80.6	---
Net SAF Revenue	\$10,584.3	\$10,965.8	\$11,008.5	\$11,028.4	\$10,998.5	3.9%
TOTAL GF/GP & SAF:						
Baseline	\$18,540.9	\$19,251.0	\$19,305.1	\$19,293.4	\$19,287.3	4.0%
Tax Adjustments	(99.0)	(465.2)	(438.8)	(471.8)	(466.0)	---
Net GF/GP & SAF Rev.	\$18,441.9	\$18,785.8	\$18,866.3	\$18,821.6	\$18,821.3	2.1%

School Aid Fund

School Aid Fund (SAF) earmarked tax and lottery revenue is expected to decrease 1.2%, to \$10,584 million in FY 2003-04, compared with the level for FY 2002-03. This represents a decrease of \$130 million from FY 2002-03, which included an estimated \$454 million in one-time revenue due to the acceleration in the due date of the State education property tax. This revised estimate is unchanged from the October 2003 consensus estimate. On a baseline basis, SAF revenue will be up an estimated 2.3% in FY 2003-04.

In FY 2004-05, SAF earmarked revenue will total an estimated \$10,999 million, which is up \$414 million, or 3.9%, from the revised estimate for FY 2003-04. This is the initial consensus estimate for FY 2004-05. On a baseline basis, SAF revenue will be up an estimated 4.0% in FY 2004-05.

Revenue Limit

In FY 2002-03, revenues subject to the revenue limit fell below the constitutional revenue limit by an estimated \$4.4 billion, or 15.7%. Based on the newly adopted economic and consensus revenue estimates, it is estimated the gap between revenues subject to the limit and the limit will continue to grow in FY 2003-04 and FY 2004-05. It is estimated that revenue will fall below the revenue limit by \$5.1 billion, or 17.5%, in FY 2003-04, and by \$5.4 billion, or 18.3%, in FY 2004-05.

Budget Stabilization Fund

Based on the consensus economic forecast, the statutory budget stabilization formula (based on the change in real Michigan personal income less transfer payments) will trigger a \$31 million payment into the Budget Stabilization Fund in FY 2004-05. In addition, under current law, the GF/GP share of the tobacco tax revenue generated by the \$0.50 per pack increase, which went into effect in August 2002, will be deposited into the Budget Stabilization Fund. It is estimated this deposit will total approximately \$154 million.

School Aid Foundation Allowance Index

The pupil estimates presented at the January 2004 Consensus Revenue Estimating Conference for FY 2003-04 show a decrease in the total number of pupils from those estimated earlier at the May 2003 Revenue Estimating Conference. The current FY 2003-04 pupil count is estimated at 1,716,000, which is 2,500 pupil memberships lower than the May 2003 consensus estimate for the current year, and only 1,000 pupils higher than the previous year, FY 2002-03. This change is thought to be the result of a better data collection system, with students now being assigned a unique identifier code through the Single Record Student Database, thereby eliminating double-counting of the same student.

Pupil estimates for the next fiscal year were also presented at the January 2004 conference. Though actual pupil memberships for the current year, FY 2003-04, only grew by 1,000 over the previous year, the pupil estimates presented for FY 2004-05 increase by 3,000 over the current fiscal year. The reason for the continued growth is a belief that the current year's growth of 1,000 was an aberration; due to better data collection, there is a new (lower) base amount off which to increase future estimates. Also, twice as many new charter schools are expected to open, compared to the number in the current year.

Specifically, the total membership for FY 2004-05 is estimated at 1,719,000 pupils, an increase of 3,000 over FY 2003-04. Of this amount, estimated pupils in local school districts decline by 3,214 while memberships at charter schools increase by 6,214, thereby accounting for the 3,000 overall pupil increase presented at the conference.

The School Aid Act requires that the next year's basic foundation allowance increase by at least the minimum amount calculated using the pupil index and revenue index determined at the revenue estimating conference. This foundation allowance index is equal to the revenue adjustment factor multiplied by the pupil membership adjustment factor. Using the consensus estimates for pupils and revenues, the pupil membership adjustment factor is 0.9983 and the revenue adjustment factor is 1.0317. Multiplying these two factors yields 1.0299 as the foundation allowance index. This would mean that the FY 2004-05 basic foundation allowance would have to increase by at least 2.99% applied to the FY 2003-04 basic foundation allowance of \$6,700, or \$200. Due to budgetary constraints, it is possible that the School Aid Act will be amended to waive this provision for the upcoming fiscal year.

We hope you find this information useful. If you have any questions or need any additional information, please call us at 373-2768.

/kjh

c: Gary Olson, Director
Ellen Jeffries, Deputy Director